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SUBJECT: ECONOMIC TRAIN NOT (YET) DERAILED BY KOSOVO

Summary

1. (U) During introductory meetings with Serbian government leaders and the U.S. business community the Ambassador heard positive messages that economic reform activity is moving forward. Despite the fact that economic issues are pushed off the front page by Kosovo, there are areas of progress and efforts by some political, economic and business leaders to push ahead with economic reforms which are important in sustaining Serbia's current economic growth. U.S. firms report continued interest from Serbian government officials to hear business community concerns. End Summary.

Dinkic Focused on Privatization, Jobs and Investment

2. (SBU) Economy Minister Mladjan Dinkic highlighted several goals for the coming months during a September 14 discussion. Dinkic will focus on finishing the privatization of socially-owned firms (generally midsize companies, which exclude the largest state-owned firms) by the end of next year. He plans to use bankruptcy procedures for an increasing number of firms that do not attract bidders. Dinkic's goal is to move firms through bankruptcy in four months, but this is dependent on capacity in the municipal courts. He also hopes to pass several amendments to the recent bankruptcy law to smooth the process. Commenting on the prospects for privatization of the state-owned oil firm NIS, Dinkic lamented the plan to sell just 25% of the firm initially as inadequate, but that Deputy Prime Minister Djelic is from the "French school of economy" and prefers to maintain a state hand in the firm.

3. (SBU) Turning to his other priority, jobs and investment, Dinkic highlighted his ministry's focus on the automotive, electronics, technology and tourism industries. Dinkic hoped to attract international bidders, especially GM, to bid in the planned December tender for state-owned automaker Zastava (Yugo). (Note: Dinkic hopes to meet with senior GM officials in Detroit during his mid-October visit for the fall IMF/World Bank meetings. End Note.) Dinkic looked to India's technology parks as a potential model for Serbia and has authorized investment subsidies of \$2700 to \$14000 per job for new investors in targeted sectors.

Permits and Regulation

4. (U) Dinkic recognized that the construction and permitting process required significant updates and simplification of procedures. This theme was also

highlighted by companies on the AMCHAM board in earlier discussions. Dinkic is leading a legislative reform council with the goal of simplifying regulatory procedures, and he has a World Bank advisor to support this effort.

AMCHAM Finds Access

15. (U) During an introduction to the AMCHAM's programs and goals on September 12, AMCHAM board members outlined their companies' experiences in Serbia. Overall, AMCHAM members reported that they have adequate access to senior policymakers, and that their concerns are heard by the political leadership. They noted that the bureaucracy remained entrenched and often required pressure from above to reform. AMCHAM members noted that while their operations are profitable, they are frustrated with the lack of 'aftercare' from the government on items ranging from permitting and licensing to occasional public criticism by government officials in the media.

16. (U) During a September 11 meeting with Parliament Speaker Oliver Dulic, Dulic emphasized that parliament was moving legislation and that it was not paralyzed by the political situation. He hoped to direct the parliament to focus beyond Kosovo to measures that would improve Serbia's economy and the standard of living of its people.

Comment

17. (SBU) While Kosovo remains the number one item on the government's agenda, and on the front pages of the newspaper, there are efforts by some in the economic field to press forward with the economic agenda needed to move Serbia toward the EU. Political uncertainty has, surprisingly, not stopped

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the Belgrade Stock Exchange sentiment index from nearing its highest levels since its inception in June 2005. Business and economic leaders are realistic about the political challenges Serbia faces in the coming months, but many remain optimistic about the economic opportunities ahead. End
Comment.

MUNTER